

What Are All These Deductions from My Paycheck?

It's exciting to receive your first paycheck. But for many young people, that first rush of excitement soon yields to disappointment. They quickly realize the money they earned is not the same as the money they received. Uncle Sam and a lot of others have taken a bite out of that paycheck.

GROSS PAY

Gross pay is the total amount of money earned before any deductions are made. For example, many employees are paid at an hourly rate. In the case of an hourly employee, the record of hours worked is multiplied by the employee's hourly rate of pay. This results in the employee's gross pay.

$$\begin{aligned} 40 \text{ hours} \times \$7.00 \text{ an hour} &= \$280.00 \\ \text{Gross pay} &= \$280.00 \end{aligned}$$

Similar calculations are made to determine the gross pay of employees who receive a monthly or annual salary.

NET PAY

The amount left after all deductions are taken out of the gross pay is the *net pay*. This is the actual amount of an employee's paycheck. Net pay is often called take-home pay because it is the amount of money an employee actually receives on payday.

$$\begin{aligned} &\text{Gross pay} \\ &- \text{Deductions} \\ &= \text{Net pay} \end{aligned}$$

REQUIRED DEDUCTIONS

Federal income tax, state income tax, local taxes, and FICA are among the required deductions taken from an employee’s paycheck. FICA is the abbreviation for Federal Insurance Contributions Act. FICA provides for a federal system of old-age, survivors, disability, and health-care insurance. The old-age, survivors, and disability portion is paid by the Social Security tax. The health-care insurance portion is paid by the Medicare tax.

The actual amount deducted from a paycheck for federal, state, and income taxes is determined by reference to tax tables provided by the various levels of government. Employers use the information provided by the tax tables and combine it with information from employees to determine how much to take out of an employee’s paycheck. Employees complete the W-4 Form—Employee’s Withholding Allowance Certificate—when they are hired. This form tells the employer the number of allowances the employee wishes to claim. For example, an employee is able to claim allowances for himself or herself, a spouse, and children under 21 years of age whom the employee supports. The more allowances an employee claims, the less money withheld from the employee’s paycheck.

MANDATORY DEDUCTIONS FROM YOUR PAYCHECK

Deduction	What do you get?	Who pays?
Federal income tax	Funds services provided by the federal government, such as defense, human services, and the monitoring and regulation of trade.	Employee
State income tax	Funds services provided by state government, such as roads, safety, and health. (Not all states levy an income tax.)	Employee
Local income tax	Funds services provided by the city or other local government, such as schools, police, and fire protection. (Not all areas levy an income tax.)	Employee
FICA: Social Security tax	Provides for old-age, survivors, and disability insurance.	Employee and employer
FICA: Medicare tax	Provides for certain health care insurance.	Employee and employer

OTHER DEDUCTIONS

In addition to required deductions, employers may take money directly out of employee paychecks to pay for various employee benefits. Benefits vary by industry, by business, and by the status of the employee in the firm. Benefits may include such things as life insurance, disability insurance, medical insurance, dental insurance, retirement savings plan, and profit-sharing.

OTHER DEDUCTIONS *		
Deduction	What do you get?	Who pays?
Life insurance	Pays a beneficiary in the event that an employee dies.	Employer or employee, or shared
Long-term disability insurance	Provides benefits in the event that an employee is completely disabled.	Employer or employee, or shared
Medical insurance	Employee and family insurance coverage for medical care expenses, including hospitalization, physician services, surgery, and major medical expenses.	Employer or employee, or shared
Dental insurance	Employee and family insurance coverage for dental care expenses, including preventive, diagnostic, basic, major, and orthodontic services.	Employer or employee, or shared
Retirement savings plan	A tax-deferred savings plan for retirement.	Employer or employee (Employer may match percentage.)
Charity	A donation to a specific charity	Employee (Employer may match a percentage of employee contribution.)

**Whether or not these benefits are offered, and who will fund them, varies by the employer.*

Continued



Questions

1. What is gross pay?

2. What is net pay?

3. Is your paycheck the total of the number of hours worked times the rate of pay?

4. Name three mandatory deductions.

5. Name three other deductions.

Calculating a Paycheck #1

**Imagine that you are a new employee
at Foo Foo Gourmet Coffee Shop.**

Foo Foo pays its employees each week. You have claimed one allowance on your W-4 form. You are single. You work 40 hours per week at \$7.00 per hour. Even as a beginning employee,

you can contribute up to \$20 each week to a 401k retirement plan. Use the background information and the tax tables 7.1 and 7.2 and information on the form below to calculate your net pay.

Employee's name: _____

Pay period ☐ Weekly ☐ Bimonthly ☐ Monthly

Number of allowances _____ (0 or more) ☐ Single ☐ Married

GROSS PAY

1. Regular wages: _____ Hours at _____ per hour = _____

2. Regular salary _____ = _____

Gross Pay = _____

REQUIRED DEDUCTIONS

3. Federal Income Tax (see U.S. tax table) _____

4. State Income Tax (see state tax table) _____

5. FICA: Social Security Tax (use 6.20% x gross pay) _____

6. FICA: Medicare Tax (use 1.45% x gross pay) _____

OTHER DEDUCTIONS

7. Medical insurance _____

8. Disability insurance _____

9. Retirement (401k) _____

10. Credit union _____

11. Union dues _____

Total Deductions (total lines 3 through 11) _____

Net Pay (subtract total deductions from the gross pay) _____

Calculating a Paycheck #2

Imagine that you are a new assistant manager at Foo Foo Gourmet Coffee Shop.

Foo Foo pays its employees each week. You have claimed zero allowances on your W-4 form. You are single. You work 40 hours per week at \$9.00 per hour. As an assistant

manager, you can contribute up to \$30 each week to a 401k retirement plan and pay \$15 a week for health insurance. Use this background information, information on the form below, and the tax tables in Table 7.1 and 7.2 to calculate your net pay.

Employee's name: _____

Pay period ☐ Weekly ☐ Bimonthly ☐ Monthly

Number of allowances _____ (0 or more) ☐ Single ☐ Married

GROSS PAY

1. Regular wages: _____ Hours at _____ per hour = _____

2. Regular salary _____ = _____

Gross Pay = _____

REQUIRED DEDUCTIONS

3. Federal Income Tax (see U.S. tax table) _____

4. State Income Tax (see state tax table) _____

5. FICA: Social Security Tax (use 6.20% x gross pay) _____

6. FICA: Medicare Tax (use 1.45% x gross pay) _____

OTHER DEDUCTIONS

7. Medical insurance _____

8. Disability insurance _____

9. Retirement (401k) _____

10. Credit union _____

11. Union dues _____

Total Deductions (total lines 3 through 11) _____

Net Pay (subtract total deductions from the gross pay) _____

Federal Tax Table

Single Persons/Weekly Payroll Period

And the wages are –		And the number of withholding allowances claimed is —										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10
The amount of income tax to be withheld is —												
\$0	\$55	0	0	0	0	0	0	0	0	0	0	0
55	60	1	0	0	0	0	0	0	0	0	0	0
60	65	2	0	0	0	0	0	0	0	0	0	0
65	70	2	0	0	0	0	0	0	0	0	0	0
70	75	3	0	0	0	0	0	0	0	0	0	0
75	80	4	0	0	0	0	0	0	0	0	0	0
80	85	5	0	0	0	0	0	0	0	0	0	0
85	90	5	0	0	0	0	0	0	0	0	0	0
90	95	6	0	0	0	0	0	0	0	0	0	0
95	100	7	0	0	0	0	0	0	0	0	0	0
100	105	8	0	0	0	0	0	0	0	0	0	0
105	110	8	0	0	0	0	0	0	0	0	0	0
110	115	9	1	0	0	0	0	0	0	0	0	0
115	120	10	2	0	0	0	0	0	0	0	0	0
120	125	11	2	0	0	0	0	0	0	0	0	0
125	130	11	3	0	0	0	0	0	0	0	0	0
130	135	12	4	0	0	0	0	0	0	0	0	0
135	140	13	5	0	0	0	0	0	0	0	0	0
140	145	14	5	0	0	0	0	0	0	0	0	0
145	150	14	6	0	0	0	0	0	0	0	0	0
150	155	15	7	0	0	0	0	0	0	0	0	0
155	160	16	8	0	0	0	0	0	0	0	0	0
160	165	17	8	0	0	0	0	0	0	0	0	0
165	170	17	9	1	0	0	0	0	0	0	0	0
170	175	18	10	2	0	0	0	0	0	0	0	0
175	180	19	11	2	0	0	0	0	0	0	0	0
180	185	20	11	3	0	0	0	0	0	0	0	0
185	190	20	12	4	0	0	0	0	0	0	0	0
190	195	21	13	5	0	0	0	0	0	0	0	0
195	200	22	14	5	0	0	0	0	0	0	0	0
200	210	23	15	6	0	0	0	0	0	0	0	0
210	220	25	16	8	0	0	0	0	0	0	0	0
220	230	26	18	9	1	0	0	0	0	0	0	0
230	240	28	19	11	3	0	0	0	0	0	0	0
240	250	29	21	12	4	0	0	0	0	0	0	0
250	260	31	22	14	6	0	0	0	0	0	0	0
260	270	32	24	15	7	0	0	0	0	0	0	0
270	280	34	25	17	9	0	0	0	0	0	0	0
280	290	35	27	18	10	2	0	0	0	0	0	0
290	300	37	28	20	12	3	0	0	0	0	0	0
300	310	38	30	21	13	5	0	0	0	0	0	0
310	320	40	31	23	15	6	0	0	0	0	0	0
320	330	41	33	24	16	8	0	0	0	0	0	0
330	340	43	34	26	18	9	1	0	0	0	0	0
340	350	44	36	27	19	11	2	0	0	0	0	0
350	360	46	37	29	21	12	4	0	0	0	0	0
360	370	47	39	30	22	14	5	0	0	0	0	0
370	380	49	40	32	24	15	7	0	0	0	0	0
380	390	50	42	33	25	17	8	0	0	0	0	0
390	400	52	43	35	27	18	10	1	0	0	0	0
400	410	53	45	36	28	20	11	3	0	0	0	0
410	420	55	46	38	30	21	13	4	0	0	0	0
420	430	56	48	39	31	23	14	6	0	0	0	0
430	440	58	49	41	33	24	16	7	0	0	0	0
440	450	59	51	42	34	26	17	9	1	0	0	0
450	460	61	52	44	36	27	19	10	2	0	0	0
460	470	62	54	45	37	29	20	12	4	0	0	0
470	480	64	55	47	39	30	22	13	5	0	0	0
480	490	65	57	48	40	32	23	15	7	0	0	0
490	500	67	58	50	42	33	25	16	8	0	0	0
500	510	68	60	51	43	35	26	18	10	1	0	0
510	520	70	61	53	45	36	28	19	11	3	0	0
520	530	71	63	54	46	38	29	21	13	4	0	0
530	540	73	64	56	48	39	31	22	14	6	0	0
540	550	74	66	57	49	41	32	24	16	7	0	0
550	560	76	67	59	51	42	34	25	17	9	0	0
560	570	79	69	60	52	44	35	27	19	10	2	0
570	580	82	70	62	54	45	37	28	20	12	3	0
580	590	84	72	63	55	47	38	30	22	13	5	0
590	600	87	73	65	57	48	40	31	23	15	6	0

State Tax Table

(Example)*

And the wages are –		And the number of withholding allowances claimed is —										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10
The amount of Wisconsin income tax to be withheld shall be —												
\$ 0	\$ 75	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
75	80	.10										
80	85	.30										
85	90	.50	.20									
90	95	.80	.40	.10								
95	100	1.00	.60	.30								
100	105	1.20	.90	.50	.20							
105	110	1.50	1.10	.70	.40							
110	115	1.70	1.30	1.00	.60	.30						
115	120	1.90	1.60	1.20	.90	.50	.10					
120	125	2.10	1.80	1.40	1.10	.70	.40					
125	130	2.40	2.00	1.70	1.30	1.00	.60	.30				
130	135	2.60	2.30	1.90	1.50	1.20	.80	.50	.10			
135	140	2.80	2.50	2.10	1.80	1.40	1.10	.70	.40			
140	145	3.10	2.70	2.40	2.00	1.70	1.30	.90	.60	.20		
145	150	3.30	2.90	2.60	2.20	1.90	1.50	1.20	.80	.50	.10	
150	155	3.50	3.20	2.80	2.50	2.10	1.80	1.40	1.00	.70	.30	
155	160	3.80	3.40	3.00	2.70	2.30	2.00	1.60	1.30	.90	.60	.20
160	165	4.00	3.60	3.30	2.90	2.60	2.20	1.90	1.50	1.20	.80	.40
165	170	4.20	3.90	3.50	3.20	2.80	2.40	2.10	1.70	1.40	1.00	.70
170	175	4.40	4.10	3.70	3.40	3.00	2.70	2.30	2.00	1.60	1.30	.90
175	180	4.70	4.30	4.00	3.60	3.30	2.90	2.60	2.20	1.80	1.50	1.00
180	185	4.90	4.60	4.20	3.80	3.50	3.10	2.80	2.40	2.10	1.70	1.40
185	190	5.10	4.80	4.40	4.10	3.70	3.40	3.00	2.70	2.30	2.00	1.60
190	195	5.40	5.00	4.70	4.30	4.00	3.60	3.20	2.90	2.50	2.20	1.80
195	200	5.60	5.20	4.90	4.50	4.20	3.80	3.50	3.10	2.80	2.40	2.10
200	205	5.80	5.50	5.10	4.80	4.40	4.10	3.70	3.30	3.00	2.60	2.30
205	210	6.10	5.70	5.40	5.00	4.70	4.30	4.00	3.60	3.20	2.90	2.50
210	215	6.30	6.00	5.60	5.30	4.90	4.60	4.20	3.90	3.50	3.10	2.80
215	220	6.60	6.20	5.90	5.50	5.20	4.80	4.50	4.10	3.80	3.40	3.10
220	225	6.80	6.50	6.10	5.80	5.40	5.10	4.70	4.40	4.00	3.70	3.30
225	230	7.10	6.80	6.40	6.00	5.70	5.30	5.00	4.60	4.30	3.90	3.60
230	235	7.50	7.00	6.70	6.30	5.90	5.60	5.20	4.90	4.50	4.20	3.80
235	240	7.80	7.30	6.90	6.60	6.20	5.90	5.50	5.10	4.80	4.40	4.10
240	245	8.10	7.70	7.20	6.80	6.50	6.10	5.80	4.50	5.00	4.70	4.30
245	250	8.50	8.00	7.50	7.10	6.70	6.40	6.00	5.70	5.30	5.00	4.60
250	255	8.80	8.40	7.90	7.40	7.00	6.60	6.30	5.90	5.60	5.20	4.90
255	260	9.20	8.70	8.20	7.80	7.30	6.90	6.50	6.20	5.80	5.50	5.10
260	265	9.50	9.00	8.60	8.10	7.60	7.20	6.80	6.40	6.10	5.70	5.40
265	270	9.90	9.40	8.90	8.40	8.00	7.50	7.00	6.70	6.30	6.00	5.60
270	275	10.20	9.70	9.30	8.80	8.30	7.80	7.40	6.90	6.60	6.20	5.90
275	280	10.60	10.10	9.60	9.10	8.70	8.20	7.70	7.20	6.90	6.50	6.10
280	285	10.90	10.40	9.90	9.50	9.00	8.50	8.10	7.60	7.10	6.80	6.40
285	290	11.20	10.80	10.30	9.80	9.30	8.90	8.40	7.90	7.50	7.00	6.70
290	295	11.60	11.10	10.60	10.20	9.70	9.20	8.70	8.30	7.80	7.30	6.90
295	300	11.90	11.50	11.00	10.50	10.00	9.60	9.10	8.60	8.10	7.70	7.20
300	305	12.30	11.80	11.30	10.90	10.40	9.90	9.40	9.00	8.50	8.00	7.50
305	310	12.60	12.10	11.70	11.20	10.70	10.30	9.80	9.30	8.80	8.40	7.90
310	315	13.00	12.50	12.00	11.50	11.10	10.60	10.10	9.60	9.20	8.70	8.20
315	320	13.30	12.80	12.40	11.90	11.40	10.90	10.50	10.00	9.50	9.00	8.60
320	325	13.70	13.20	12.70	12.20	11.80	11.30	10.80	10.30	9.90	9.40	8.90
325	330	14.00	13.50	13.00	12.60	12.10	11.60	11.20	10.70	10.20	9.70	9.30
330	335	14.30	13.90	13.40	12.90	12.40	12.00	11.50	11.00	10.60	10.10	9.60
335	340	14.70	14.20	13.70	13.30	12.80	12.30	11.80	11.40	10.90	10.40	10.00
340	345	15.00	14.60	14.10	13.60	13.10	12.70	12.20	11.70	11.20	10.80	10.30
345	350	15.40	14.90	14.40	14.00	13.50	13.00	12.50	12.10	11.60	11.10	10.60
350	355	15.70	15.20	14.80	14.30	13.80	13.40	12.90	12.40	11.90	11.50	11.00
355	360	16.10	15.60	15.10	14.60	14.20	13.70	13.20	12.70	12.30	11.80	11.30
360	365	16.40	15.90	15.50	15.00	14.50	14.00	13.60	13.10	12.60	12.10	11.70
365	370	16.80	16.30	15.80	15.30	14.90	14.40	13.90	13.40	13.00	12.50	12.00
370	375	17.10	16.60	16.10	15.70	15.20	14.70	14.30	13.80	13.30	12.80	12.40
375	380	17.50	17.00	16.50	16.00	15.50	15.10	14.60	14.10	13.70	13.20	12.70
380	385	17.90	17.40	16.90	16.40	15.90	15.40	14.90	14.50	14.00	13.50	13.10
385	390	18.20	17.70	17.20	16.70	16.20	15.80	15.30	14.80	14.30	13.90	13.40
390	395	18.60	18.10	17.60	17.10	16.60	16.10	15.60	15.20	14.70	14.20	13.70